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FISCAL IMPACT STATEMENT

LS 7430

BILL NUMBER: HB 1610

NOTE PREPARED: Mar 19, 2009

BILL AMENDED: Mar 19, 2009

SUBJECT: Sheriff's Pension and Prior Fund Contributions.

FIRST AUTHOR: Rep. Soliday

FIRST SPONSOR: Sen. Charbonneau

BILL STATUS: CR Adopted - 2nd House

FUNDS AFFECTED: ___ **GENERAL**
 DEDICATED
 FEDERAL

IMPACT: Local

Summary of Legislation: (Amended) This bill:

- (1) allows an employee beneficiary of a sheriff's retirement plan (plan) to transfer certain amounts from a prior public retirement fund to purchase service credit;
- (2) provides that a transfer cannot exceed the amount necessary to fund the service purchase and that any amounts in the prior public retirement fund after the transfer shall remain subject to the prior public retirement fund's provisions;
- (3) requires an employee beneficiary to earn the years of credited service in the plan necessary to receive an unreduced pension benefit before the employee beneficiary may receive a benefit based on the service purchased by the amount transferred;
- (4) provides that, if an employee beneficiary withdraws the transferred amount from the plan, an adjustment of the pension benefit payable to an employee beneficiary is required to ensure that the plan remains actuarially cost neutral to the county;
- (5) allows an employee beneficiary who purchases permissive service credit in the plan to roll over a distribution from certain retirement accounts in order to fund the employee beneficiary's purchase; and
- (6) allows the plan to accept, on behalf of an employee beneficiary who purchases permissive service credit in the plan, a trustee to trustee transfer from certain retirement accounts in order to fund the employee beneficiary's purchase.

Effective Date: July 1, 2009.

Explanation of State Expenditures:

Explanation of State Revenues:

Explanation of Local Expenditures: (1) *Purchasing Service Credit*- This bill allows individuals who were formerly covered by a public retirement fund to use their annuity savings account (ASA) from their previous fund to purchase service in the sheriff's pension trust. For some employers making ASA contributions on behalf of an employee, the employer may be subject to an indeterminable expense (i.e., the employer contribution) to the extent that the employer contribution, under current practice, is not available to the employee if the employee leaves before vesting.

The bill also provides that the purchase of service credits by members must be at full actuarial cost. This means the following are considered: (1) the member's salary at the time the member actually makes a contribution for the service credit and (2) a rate determined by the actuary of the fund based on the age of the member at the time the member actually makes a contribution for service credit and computed to result in a contribution amount that approximates the actuarial present value of the benefit attributable to the service credit purchased. However, a couple of circumstances under which a member of a sheriff's retirement plan may wish to purchase service credit and the potential impact to the funds are identified below.

(A) If a member wanted to purchase service credit, the actuary for the fund calculates the cost of that service based on the member's current salary, current service earned, and the member's current age. This cost represents the full actuarial cost of the service at the time of the purchase (excepting any future cost-of-living adjustments that may be awarded). In other words, if a member purchases the service credit on one day and then retires with benefits commencing the next day, there would be no immediate fiscal impact to the sheriff's plan. There also would be no immediate real gain to the member because the additional benefits received due to the service would be actuarially equivalent to the purchase price of the service. This changes, however, once a COLA has been awarded. Since COLAs were not included in the purchase price, such a COLA would represent a real gain to the member and a fiscal impact to the sheriff's retirement plan..

(B) If the member purchases service credit and continues employment, the member may also be able to benefit from the earlier purchase of service credit for a second reason. As the member continues employment, the member can expect increases in salary. These salary increases will increase the benefit the member can expect to receive at retirement. However, the purchase price of the service purchased was based on the member's salary at the time of purchase before any increases in salary. Any increase in the value of the member's benefit because of salary increases was not included in the purchase price, therefore representing a real gain to the member and an impact to the sheriff's retirement plan.

Explanation of Local Revenues:

State Agencies Affected:

Local Agencies Affected: County Sheriff pension plans.

Information Sources: Ron Vincent, McCready and Keene, Inc, actuaries for many County Sheriff pension plans, 317-849-4333.

Fiscal Analyst: James Sperlik, 317-232-9866.